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SUBJECT: MOBILE BANKING - GREAT POTENTIAL IN IRAQ, BUT OBSTACLES
REMAIN

REF: FEB 3 TELCON: STATE(COHEN) - EMBASSY BAGHDAD(ECON, TREASURY) -
USF-I (J6) - TFBSO(HAAG)

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¶1. (SBU) This cable contains substantial input from Treasury's Office of Technical Assistance (OTA), DoD's Task Force for Business and Stability Operations (TF BSO) and USF-I, J-6 (Communications and Information Systems Directorate).

¶2. (SBU) SUMMARY: With two cell phones for every three Iraqis, it appears great market potential exists for "mobile banking" -- allowing Iraqi subscribers to use mobile phones to view account balances and make electronic payments and funds transfers.

Significant impediments -- none insurmountable -- stand in the way of quick growth in Iraq's mobile banking sector: a general mistrust of banks by the population; existing Iraqi laws and regulations; lack of electronic core banking systems in the state-owned banks; and the need to further develop the switch infrastructure. Mobile phone companies and others are enthusiastic about pushing ahead with one model or another in the near term. The Central Bank of Iraq also seems positive about the inevitability and promise of mobile banking, though it is wary of "mobile wallet," whereby the cell phone accounts themselves store value. DOD's Task Force for Business Stability Operations (TF BSO) is coordinating with the Iraqi electronic banking consortium AMWAL and AsiaCell on a pilot mobile banking project for 300 of both entities' employees. The other major cell phone provider in Iraq, Zain, is considering providing a more limited mobile phone-based money transfer service that would run through credit and banking institutions outside Iraq.

For the time being, however, the only large-scale functioning e-payment system used for mass distribution of salaries and pensions is the Iraqi government's "Smart Card," operated through two state banks. (Private banks are offering smaller-scale services.) END SUMMARY.

¶3. (SBU) COMMENT: Getting the necessary regulatory, technical, and consumer protection infrastructure in place for mobile banking obviously will take some time. Delays, however, could lead the private sector and public to find more immediate workarounds, which may lead to prudential and security vulnerabilities. Once operational, the attractiveness of mobile banking may spur many more Iraqis to move their money into the formal financial system, a boon to economic development. Iraq's private banks (who have a technological and service advantage over the state banks) may also stand to gain as they are better able to offer these services. Despite these advantages, however, growth of the private banking sector will be limited as long as Iraqi government entities are forbidden from doing business with private banks - the government accounts for approximately 60 percent of employment and GDP. As Iraq inevitably presses ahead with some sort of mobile, electronic transaction mechanism, we should look to ensure that these developments keep with global best practices, efficient use of appropriate technology, and safeguards against fraud, money laundering and other abuses. END COMMENT.

¶14. (U) With more than 19.5 million mobile phone accounts in Iraq - and more people signing on every day - tremendous market potential exists for mobile banking here. [NOTE: Given Iraq's population of approximately 30 million, this implies a penetration rate of 63 percent. Approximately 30 million, this implies a penetration rate of 63 percent. This likely overstates the case, however, as many subscribers have two or three phones from different companies to overcome lack of roaming and gaps in coverage. END NOTE.] New mobile banking technologies such as point-of-sale phone payments at retail shops, mobile phone bill payment, and electronic funds transfers via text would undoubtedly be very popular here. These types of transactions would also allow Iraq to "leap frog" over some of the traditional fund transfer mechanisms (such as checks, which are often counterfeited here). Moreover, this potential market is expected to grow with the arrival of several international oil companies, who have already expressed the desire to use the latest banking systems for their internal operations and employees, possibly on a large scale.

¶15. (SBU) One particular advantage of mobile banking for Iraq's smaller, self-employed entrepreneurs is that the point-of-sale transaction function means that they would not have to invest in expensive point-of-sale credit card readers or pay hefty transaction fees. Similarly, families wanting to send funds to relatives via bank transfers in Iraq sometimes pay exorbitant fees (up to \$95 per transaction) to wire money domestically within the same bank, and the payment is often delayed. A mobile phone transfer would likely take less time, at a fraction of the cost. Next, mobile banking has allowed other developing countries to invest in fewer ATMs, which are expensive to operate. Many merchants in other countries also

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offer cash back with a mobile banking purchase, which saves them the risk and expense of carrying their cash to the bank. Finally, many Iraqis currently have only one option if they want to know their account balance: wait in a long line (sometimes for hours) for a teller to look it up. Mobile banking would give account holders the option of viewing their balance almost instantaneously.

TFBSO's PILOT MOBILE BANKING PROJECT

¶16. (SBU) The Department of Defense's Task Force for Business Stability Operations (TFBSO) is already coordinating a pilot mobile banking project with 300 users with the AMWAL consortium of 13 (out of 36) Iraqi privately-owned banks and the cell phone provider, AsiaCell. The project will help assess the feasibility of a larger mobile banking system throughout Iraq. So far as we know, it is the only such project in the country.

The pilot project allows participants to:

- Check their account balance,
- Top up their cell phone credit automatically,
- Send money from one person to another electronically, and
- Pay merchants directly from their account instead of using a debit card.

Although the project is still relatively small, the partners plan to expand it over the coming year, perhaps to university students. The project is also technologically simple: no account menu is displayed on the phone, and users text codes into the system depending on the task. AMWAL hopes that the project will move past its pilot stage and go "live" this spring. [NOTE: This project in its current phase cannot be used as a mass-payroll system. The electronic switch does not work in a way that can "push" thousands of payments to various accounts instantaneously. Each payment must be texted individually, which could lead to errors. The lack of a simple menu on the phone also demands some texting savvy on the part of the user. END NOTE.]

¶ 17. (U) Despite the great potential of mobile banking in Iraq, much work lies ahead. The general population remains severely under-banked; only nine percent of Iraqis have bank accounts. Because of cash shortages during government pay periods, robberies, corruption, and a lack of deposit insurance, many Iraqis do not view banks as a safe place to keep money. Instead, they generally keep cash at home and use the traditional "hawala" money transfer system.

In total, Iraq has only 853 bank branches for a population of more than 30 million. By comparison, to achieve the same bank branch-per-capita ratio of Jordan, Iraq would need more than 3,000 branches. In order for mobile banking to take hold on a large scale, more Iraqis would first have to open bank accounts and link them with their mobile phones. (See comparison of "mobile banking" and "mobile wallet" in paragraph 11.)

¶ 18. (U) State-owned banks, other private banks, or foreign investors may launch competing mobile banking projects in the future. All of the private banks together still make up only a tiny fraction of Iraq's total banking market - three percent of total assets. AMWAL's consortium currently includes only four of the top ten privately-owned banks, so its total market share remains exceeding small. Iraqis in the past have been especially skeptical of private banks, and it may take time before AMWAL's market share grows. Since state-owned banks currently make up 97 percent of the total banking market (by assets), helping the state banks offer mobile banking market (by assets), helping the state banks offer mobile banking would help boost the total number of mobile banking customers in Iraq, though it also would bolster the comparative advantages the state banks already enjoy over private banks.

GOI REGULATORY AND LEGAL HURDLES

¶ 19. (SBU) Iraqis' wariness about banks is only one obstacle to achieving broad-based mobile banking in Iraq. Several Government of Iraq legal hurdles exist as well, including lack of legal validity for e-transactions, GOI strictures against government agencies using private banks, and banking regulators' resistance to cell phone companies performing bank-like functions. Opening the legal environment for mobile banking might require new legislation passed by the Council of Representatives (COR), and changes to Central Bank of Iraq (CBI) regulations and Ministry of Finance (MOF) policies. Some GOI officials are very enthusiastic about mobile banking, so we could possibly see movement on regulatory changes in the near term.

ELECTRONIC SIGNATURES NEED TO BE LEGALLY ACCEPTABLE

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¶ 10. (SBU) CBI Director for Banking Supervision Walid Eidy has told EmbOffs he is excited about mobile banking and would be happy to meet with investors interested in bringing that technology to Iraq. However, he expressed concern that the technical and legal foundations for such a system did not yet exist. He said one of the biggest difficulties is that electronic signatures (including those from texts, email, and computer programs), photocopies, and scans are not considered legal as evidence to be used in a court of law -- thus mobile transactions would be hard to defend in court. He said that before mobile banking could work on a large scale, the COR would have to pass a law that specifically made such "documents" legal for use in court instead of paper originals. Eidy also said 95 percent of the Iraqi population was "electronically illiterate," and professed concern they could be taken advantage of without the right consumer protections. (Comment: The U.S. Treasury Office of Technical Assistance (OTA) is advising the CBI on a regulatory platform on electronic signatures and other consumer protection issues. End comment)

"MOBILE BANKING" vs. "MOBILE WALLET"

¶ 11. (SBU) The Central Bank makes a distinction between "mobile banking" and "mobile wallet" and remains steadfast that only "mobile

banking" will be allowed in Iraq for the time being. Mobile banking is when all customers have both a cell phone and an established bank account in a licensed bank. The mobile banking interface merely allows the customer to access his/her account via the cell phone, and all transactions take place through the banking system. "Mobile wallet" (as the term is used by the CBI) is when the phone itself can store value and payments can be linked to an individual cell phone account. (For example, in some East Asian countries, one can purchase from a vending machine using money stored on the cell phone.) CBI opposes mobile wallet because the cell phone companies would act as banks in facilitating transactions and would be more difficult to supervise against money laundering and terrorism finance. For the time being, the CBI will require all Iraqis wanting mobile banking to first get a bank account that can be linked to their cell phone. (Comment: Treasury's OTA is extensively advising the CBI on bank regulation issues. The GOI will need to carefully weigh the potential economic benefits of a more loosely regulated mobile banking sector with the prudential and security concerns inherent in a proliferation of non-banks (telecoms companies) providing bank-like services. End Comment.)

CBI WANTS NEW NATIONAL SWITCHES
TO BE LOCATED IN IRAQ

¶12. (SBU) For a mobile banking system to work, all participating banks must plug into an inter-operable electronic "switch" (a kind of sophisticated server) that will clear their transactions in a timely manner. Several different bankcard switches already are in operation. The AMWAL consortium of 13 private banks in Iraq has a switch located in Amman, Jordan through which the consortium offers Visa, Mastercard, and other electronic banking services. Warka Bank (private), Rafidain (state-owned), Rasheed (state-owned), and the Trade Bank of Iraq (state-owned) all have their own switches, too. Treasury's OTA is helping the CBI with the new architecture of their payments system, which will include a new "national bankcard switch" Qpayments system, which will include a new "national bankcard switch" and a "national mobile banking switch," that would act as umbrella switches over the various other switches, making them inter-operable. The Central Bank will require these switches to be physically located in Iraq. Treasury's OTA indicates that the two switches could be up and running within the next year.

STATE BANKS NEED CORE BANKING SYSTEMS

¶13. (SBU) Before the state banks can be involved in mobile banking, they all need to install a "core banking system," an integrated computer system handling a bank's basic operations, such as recording transactions, interest calculations on loans and deposits, customer records, payments, and withdrawals. A core banking system allows customers with an account at one branch to access their account seamlessly at any other branch of that bank.

¶14. (SBU) Treasury's OTA is helping the state-owned banks restructure and modernize. With OTA's help, Rafidain and Rasheed Banks both now have computer systems at their Baghdad headquarters and at each branch, but they are not interconnected. Rafidain is in the process of rolling out a core banking system at its headquarters and 160 branches, and could be finished within a year. Once the state-banks' systems are up and running, the goal would be to connect them to a national bankcard switch. According to Treasury OTA, the state banks could also offer a mobile banking interface.

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(Comment: USF-I, J-6 (Communications and Information Systems Directorate) assesses that limited national information infrastructure and lack of a terrestrial communications backbone will prove a major challenge to this initiative. However, it appears the core banking systems are intended to run through satellite links, which may reduce this limitation. End Comment.)

GOI ENTITIES STILL LIMITED
TO STATE-OWNED BANKS

¶15. (SBU) The Ministry of Finance (MOF) has long had a policy limiting GOI entities (e.g., ministries, provincial governments, and state-owned enterprises) to using state-owned banks, with very few exceptions. The Minister of Finance recently released a letter allowing self-funded state-owned enterprises (the ones that do not receive any funding from the federal budget) to use private banks as soon as the CBI releases relevant guidance. CBI Director of Banking Supervision Walid Eidy told us January 13 that his team was writing guidance for the CBI Governor to approve shortly. (Comment: During the week of February 14, the Council of Ministers reportedly issued official "instructions" to all government entities (including self-funded SOEs) that they are prohibited from doing any business with private banks. End comment.)

SMART CARD SYSTEM PROBABLY BETTER FOR
LARGE GOI PAYROLLS IN SHORT TERM

¶16. (SBU) Given that the MOF only allows GOI entities to use state-owned banks, and that the state-owned banks are still working on their core banking systems (and have still not connected into a national switch), it appears unlikely that GOI employees could be paid via mobile phone in the short-term, even if "mobile wallet" were allowed. Meanwhile, an electronic payment scheme for GOI employee salaries and pensions already exists: the "Smart Card" system through Rafidain and Rasheed Banks. If the goal of a project were to find a way to quickly set up an e-payment scheme directly and transparently on a larger scale, the existing "Smart Card" system would appear the way to go. Treasury's OTA provided guidance to the GOI's "Smart Card," project, in which over one million individuals currently receive their pay electronically on a special card. This system appears to be working well, as many provincial governors are eager to have their province join. The Smart Card system itself may develop a mobile phone interface in the next couple of years, according to Treasury OTA.

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